

**BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION**

<b>IN THE MATTER OF BLACK HILLS/</b>	)	
<b>NEBRASKA GAS UTILITY COMPANY, LLC</b>	)	
<b>D/B/A BLACK HILLS ENERGY, SEEKING</b>	)	<b>DOCKET NO. NG____</b>
<b>A PIPELINE REPLACEMENT CHARGE</b>	)	
<b>FOR BLACK HILLS ENERGY'S RATE AREAS</b>	)	
<b>ONE, TWO AND THREE (CONSOLIDATED)</b>	)	

**Direct Testimony of Jason S. Keil**

Pipeline Replacement Charge  
Accounting and Tariff

April 6, 2015

Jason S. Keil  
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Papillion, NE 68046  
402-221-2247

**TABLE OF CONTENTS**

<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>II. PURPOSE OF TESTIMONY .....</b>	<b>2</b>
<b>III. ATTACHMENTS.....</b>	<b>3</b>
<b>IV. PIPELINE REPLACEMENT CHARGE CAPITAL ALLOCATION METHODOLGY AND ACCOUNTING .....</b>	<b>3</b>
<b>V. PIPELINE REPLACEMENT CHARGE EXHIBIT C SCHEDULES.....</b>	<b>8</b>

**ATTACHMENT**

Attachment JSK-1: BHE Plant and Retirements

**I. INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. Jason S. Keil, 1102 E. 1<sup>st</sup> Street, Papillion, NE 68046.

**Q. WHAT IS YOUR POSITION WITH BLACK HILLS ENERGY AND WHAT ARE YOUR AREAS OF RESPONSIBILITY?**

A. I am a Senior Regulatory Analyst with Black Hills Utility Holdings Company, Inc. (Hereafter "BHUH" or "BHUHC"). This legal entity is a business support function for Nebraska Gas Utility Company, LLC d/b/a Black Hills Energy (hereafter "Black Hills Energy") and other Black Hills Utility Holdings' affiliates in Colorado, Iowa and Kansas, which were formed to own the assets acquired from Aquila, Inc. Black Hills Utility Holdings is part of Black Hills Corporation. In this position, I support the Manager of Regulatory Services, including preparation of regulatory compliance filings and applications, internal and external regulatory relations, and regulatory planning.

**Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.**

A. I attended Bellevue University in Bellevue, Nebraska, where I obtained a Bachelor of Science degree in Accounting and a Master of Business Administration with an emphasis in Finance. I have worked for BHUH since July of 2013. Prior to joining BHUH, I provided credit risk management leadership for ConAgra Energy Services (as Manager – Credit Risk), Minnesota Power, Inc. (as Credit Manager), IDACORP, Inc. (as Manager – Credit Risk), BHC (as Sr. Finance Manager / Credit Manager), and NRG Energy, Inc. (as Manager – Credit

1 Risk). In these roles, I managed credit and market risk in relation to long-term  
2 strategies and goals to ensure each respective company was taking proper  
3 precautions to mitigate credit and market risk, and to ensure each met regulatory  
4 and compliance requirements. My regulated and non-regulated utility experience  
5 spans a total of eighteen years.

6 **II. PURPOSE OF TESTIMONY**

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
8 **PROCEEDING?**

9 A. The purpose of my testimony is to (a) sponsor the proposed Tariff sheets setting  
10 forth the infrastructure system replacement cost recovery charge (hereafter  
11 “Pipeline Replacement Charges”) requested by Black Hills Energy; (b) to support  
12 the schedules included in Exhibit C, work papers, or other documents presented in  
13 support of Black Hills Energy’s Pipeline Replacement Charge application; (c) to  
14 generally describe the methods of accounting for the projects included in the  
15 Pipeline Replacement Charge Application; and (d) to verify that the Nebraska  
16 statutory requirements of sections 66-1802, 66-1865, 66-1866 and other  
17 applicable provisions of the State Natural Gas Regulation Act related to the  
18 Pipeline Replacement Charge Application have been met. My testimony will  
19 also provide some additional explanation of the financial and property records  
20 related to the projects submitted in this application.

### III. ATTACHMENTS

**Q. ARE YOU SPONSORING ANY ATTACHMENTS?**

A. I have one attachment to my testimony, Attachment JSK-1 – BHE Plant and Retirements. Attachment JSK-1 is an electronic copy of a Microsoft Excel file that includes data regarding a comprehensive list of capital addition projects that were completed by Black Hills Energy between July 1, 2013 and January 31, 2015. This project list was reviewed and filtered to derive the list of eligible projects and associated investments that are included in Black Hills Energy's Pipeline Replacement Charge application. This testimony supports Attachment JSK-1, and sponsors and supports Black Hills Energy's application and the information contained therein related to the Pipeline Replacement Charge application exhibits: i.e., Exhibit A (clean tariffs), Exhibit B (tracked tariffs), and Exhibit C (application rate calculation schedules).

#### **IV. PIPELINE REPLACEMENT CHARGE CAPITAL ALLOCATION**

##### **METHODOLOGY AND ACCOUNTING**

**Q. IS THIS PIPELINE REPLACEMENT CHARGE APPLICATION IN ADDITION TO THE PIPELINE REPLACEMENT CHARGE AUTHORIZED BY THE COMMISSION IN NG-0074?**

**A.** Yes. This Pipeline Replacement Charge is in addition to the Pipeline Replacement Charge previously authorized by the Commission in NG-0074.

1   **Q.   ARE YOU FAMILIAR WITH HOW BLACK HILLS ENERGY**  
2       **DETERMINED WHICH PROJECTS WERE ELIGIBLE TO BE**  
3       **INCLUDED IN ITS PIPELINE REPLACEMENT CHARGE**  
4       **APPLICATION?**

5   A.   Yes. As described in the Direct Testimony of Don Nordell, Black Hills Energy's  
6       Director of Nebraska Operations, Black Hills Energy proposes to include  
7       identified plant additions put in service from July 1, 2013 through January 31,  
8       2015. Black Hills Energy extracted all "Plant Additions and Retirements"  
9       excluding "General Plant" accounts for this application from the Company's  
10      Power Plant™ property records information system. Black Hills Energy obtained  
11      the accounting and financial information from its PeopleSoft™ accounting  
12      records information system.

13   **Q.   PLEASE CONTINUE.**

14   A.   As noted in the Direct Testimony of Don Nordell, Black Hills Energy's Director  
15      of Nebraska Operations, and in Black Hills Energy's Pipeline Replacement  
16      Charge Application, capital projects coded in Black Hills Energy's property  
17      records are identified as "Specific" or "Blanket" projects. In addition, all Plant  
18      Additions and Retirements are assigned to a Work (Project) Order Number.  
19      Blanket projects are capital projects that will (i) occur daily, (ii) cost less than  
20      \$10,000, and (iii) are not tracked by individual project numbers. The blanket  
21      code identifies the expenditure as a service line or main replacement, and it  
22      classifies the expense as a replacement, retirement, or new project.

1 As Mr. Nordell testifies, “Specific” projects at Black Hills Energy normally cost  
2 over \$10,000, have project duration longer than a few days, and the project  
3 description describes the type of work being completed. Examples of specific  
4 projects include replacing large sections of deteriorating gas main, rebuilding  
5 district regulator stations, updating obsolete odorizer systems, and relocating  
6 mains for street improvement projects or when corrosion degrades the integrity  
7 and safety of the pipe.

8 Work Orders can be categorized by a “Project Type”. The final Plant Additions  
9 and Retirements included in Black Hills Energy’s Pipeline Replacement Charge  
10 Application are based on Plant Additions and Retirements charged to the  
11 following Project Types:

- 12 • DIUMS – Distribution Capital, Integrity, Underground, Mains, Specific
- 13 • DIUWB – Distribution Capital, Integrity, Underground, Customer Work  
14 or Services, Blanket
- 15 • DIUMB – Distribution Capital, Integrity, Underground, Mains, Blanket
- 16 • DIOSS – Distribution Capital, Integrity, Overhead, System Replacement,  
17 Specific
- 18 • DIUSS – Distribution Capital, Integrity, Underground, System  
19 Replacement, Specific
- 20 • DCBSI – Distribution Capital, Blanket System Improvement Project
- 21 • DIMSS – Distribution Capital, Integrity, New Customer, System  
22 Replacement, Specific

1 The Plant Additions and Retirements were split between Jurisdictional (J) and  
2 Non-jurisdictional<sup>1</sup> (NJ) based on an identifier in the extracts and a review of the  
3 final Specific Work Orders included in the application. Any record in the extract  
4 with a State equal to “State - Nebr Gas Dist-Rate Area 4” was labeled “NJ” and  
5 excluded from jurisdictional rate base and revenue requirement. For Specific  
6 Work Orders included in the filing associated with Black Hills Energy’s non-  
7 jurisdictional customers, the amount for the Specific Work Order was labeled  
8 “NJ” and excluded from jurisdictional rate base and revenue requirement.

9 **Q. WHAT PROCESS DID BLACK HILLS ENERGY FOLLOW TO**  
10 **DETERMINE WHICH PROJECTS WERE ELIGIBLE FOR INCLUSION**  
11 **IN ITS PIPELINE REPLACEMENT CHARGE APPLICATION?**

12 A. The total Plant Additions and Retirements included in Black Hills Energy’s  
13 Pipeline Replacement Charge Application are the result of a two-step process.

14 **Q. PLEASE DESCRIBE THOSE STEPS.**

15 A. The first step was the combining of the Plant Additions and Retirement Extracts  
16 into one worksheet. The activity costs associated with the Plant Additions and  
17 Retirements extracts are put in separate columns in order to calculate the Net Cost  
18 of the Plant Additions in the worksheets.

19 Attachment JSK – 1 contains several tabs in the electronic file. Exhibit I – shows  
20 the Plant Additions and Retirements per the Power Plant information system  
21 extracts for Plant Additions and Retirement for the time period of July 1, 2013

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<sup>1</sup> Black Hills Energy has customers that are considered non-jurisdictional and are not regulated by the Nebraska Public Service Commission pursuant to Neb. Rev. Stat. § 66-1810. These customer are all High Volume customers as defined in Neb. Rev. Stat. § 66-1802 and operate under negotiated contracts. All integrity projects relating to these customers have been excluded from this application.



1 through January 31, 2015. The total Plant Additions and Retirements are as  
 2 follows:

3	Plant Additions (July 2013 to January 2015)	\$32,954,577.13
4	Plant Retirements (July 2013 to January 2015)	<u>(\$5,613,392.63)</u>
5	Net Plant Additions	\$27,341,184.50

6 **Q. WHAT IS THE SECOND STEP IN THE PROCESS?**

7 A. In the second step of the process, Black Hills Energy filtered the projects to only  
 8 include integrity projects. Integrity projects are identified by project codes  
 9 DIUMS, DIUWB, DIUMB, DIOSS, DIUSS, DCBSI and DIMSS. Once the  
 10 projects were sorted by the above mentioned project codes, each project work  
 11 order was reviewed by Operations to identify specific projects that meet the  
 12 requirements specified in Neb. Rev. Stat. § 66-1802 (6). Those projects were  
 13 labeled “include” in Attachment JSK-1, tab Combined Adds and Retirements  
 14 column V.

15 Attachment JSK-1, Exhibit II - shows the reduction of the Plant Additions and  
 16 Retirement balances for the excluded projects along with a reconciliation of  
 17 included projects to the Power Plant<sup>TM</sup> Extract. Attachment JSK-1, Exhibit III –  
 18 shows the included projects listed and summed by Account Description and  
 19 further grouped by the categories of Mains, Measurement Equipment and Service  
 20 Lines. This step resulted in the following balances:

21	Included Adds (July 2013 to January 2015)	\$14,427,612.88
22	Included Retirements (July 2013 to January 2015)	<u>(\$1,558,697.14)</u>
23	Net Included	\$12,868,915.74

1

2 Excluded Adds (July 2013 to January 2015) \$18,526,964.25

3 Excluded Retirements (July 2013 to January 2015) (\$4,054,695.49)

4 Net Excluded \$14,472,268.76

5 **V. PIPELINE REPLACEMENT CHARGE EXHIBIT C SCHEDULES**

6

7 **Q. PLEASE DESCRIBE THE PURPOSE OF THE VARIOUS SCHEDULES**  
 8 **INCLUDED IN EXHIBIT C OF BLACK HILLS ENERGY'S PIPELINE**  
 9 **REPLACEMENT CHARGE APPLICATION.**

10 A. Black Hills Energy's Pipeline Replacement Charge Application Exhibit C,  
 11 contains 6 schedules. The purpose of these schedules is to comply with the  
 12 requirements of sections Neb. Rev. Stat. § 66-1802, 66-1865, and particularly 66-  
 13 1866 of the Act.

14 **Q. WHERE IN BLACK HILLS ENERGY'S PIPELINE REPLACEMENT**  
 15 **CHARGE APPLICATION ARE THESE STATUTORY REQUIREMENTS**  
 16 **FULFILLED?**

17 A. The statutory requirements are fulfilled throughout the Application and  
 18 accompanying exhibits. In particular, Exhibit C of the Application provides most  
 19 of the detail required by the above-referenced sections of the Act. In addition, as  
 20 described above, more project data and detail is attached to my testimony and  
 21 within the supporting data provided in Attachment JSK-1.

22 The information contained in the six schedules provided in Application Exhibit C  
 23 of Black Hills Energy's Application contains the following information:

1        **Application Exhibit C, Schedule 1** shows the derivation of Black Hills Energy's  
2        revenue deficiency after the addition of \$11,029,480 to Black Hills Energy's total  
3        State rate base (i.e., \$11,029,457 of additional Jurisdictional rate base). The total  
4        State revenue deficiency is \$1,866,098 while the Jurisdictional component is  
5        \$1,866,094.

6        **Application Exhibit C, Schedule 2** shows the derivation of the cost of capital  
7        used in determining the incremental revenue requirement underlying the Pipeline  
8        Replacement Charge proposed through this application. The approved rates from  
9        Black Hills Energy's Docket No. NG-61 rate proceeding are shown on Schedule  
10       2, Lines 4 through 6 *See also, Neb. Rev. Stat. § 66-1866(5)(e),(f) and (g).*

11       **Application Exhibit C, Schedule 3** shows the total State and Jurisdictional  
12       additions and retirements to plant in service, provision for accumulated  
13       depreciation and amortization, and accumulated deferred income tax by FERC  
14       account.

15       **Application Exhibit C, Schedule 3.1** is a summary for total State and  
16       Jurisdictional additions to Plant in Service and Retirements by Plant Acct &  
17       Description from the detail by project information provided in Schedule 3.4.

18       **Application Exhibit C, Schedule 3.2** is a summary for total State and  
19       Jurisdictional Provision for Accumulated Depreciation and Amortization by Plant  
20       Acct & Description from the detail by project information provided in Schedule  
21       3.4.

22       **Application Exhibit C, Schedule 3.3** provides detailed project information  
23       required by Neb. Rev. Stat. § 66-1865(2) and 1866(5) of the Act. For example,

1 Schedule 3.3 provides a list, project description, the project, categories of  
2 “integrity” replacements made by Black Hills Energy, and the total cost of each  
3 eligible infrastructure replacement project and the FERC accounts in which  
4 project dollars were recorded. This schedule also shows associated plant  
5 retirements by FERC account.

6 **Application Exhibit C, Schedule 3.4** provides detailed project information  
7 required by Neb. Rev. Stat. § 66-1866(2) and 1866(5) of the Act. Specifically,  
8 this schedule lists: (a) the eligible project, (b) a general description of the  
9 categories of the eligible projects, (c) the general location of the project, (the  
10 general purpose of the project (*see also Schedule 3.3*), (e) the date construction  
11 began and ended (the capitalization date), and (f) the total expenditures  
12 capitalized on the project, retirements associated with the project, and the net  
13 plant additions associated with each eligible project. This schedule also shows  
14 the number of months that the project has been in service as of January 31, 2015,  
15 the depreciation rate applicable to the plant accounts for each project, and the  
16 accumulated reserve for depreciation and amortization associated with each  
17 project since the capitalization date.

18 In addition, Schedule 3.4 shows the derivation of the annual depreciation expense  
19 (total State and Jurisdictional) associated with the additions and retirements for  
20 each project listed in the schedule. Finally Schedule 3.4 provides the calculation  
21 of accumulated deferred income taxes for each project. The total state and  
22 jurisdictional amounts for accumulated deferred income taxes are included on  
23 Exhibit C, Schedule 3, Line 25.

1        **Application Exhibit C, Schedule 4** shows the total State and Jurisdictional net  
2        operating income before income tax impact for the annualized depreciation  
3        calculation provided in Schedule 3.4. *Neb. Rev. Stat. § 66-1866(5)(c)*.

4        **Application Exhibit C, Schedule 5** shows the derivation of federal and state  
5        income taxes (total State and Jurisdictional) associated additions and retirements  
6        of the plant in service reflected in Black Hills Energy's Application. *Neb. Rev.*  
7        *Stat. § 66-1866(5)(d)*.

8        **Application Exhibit C, Schedule 6** shows the derivation of the Pipeline  
9        Replacement Charge for each jurisdictional customer class, resulting from Black  
10       Hills Energy's additional investment in safety and infrastructure replacements or  
11       additions to its rate base since the last rate proceeding. The Pipeline Replacement  
12       Charges are reflected in Black Hills Energy's Application and on the proposed  
13       tariffs provided in Pipeline Replacement Charge application Exhibit A. *Neb. Rev.*  
14       *Stat. §§ 66-1866(3) and (6)*.

15    **Q.    HOW WAS THE TOTAL REVENUE DEFICIENCY DIVIDED AMONG**  
16    **THE CUSTOMER CLASSES?**

17    A.    As noted on Exhibit C, Schedule 6, the Jurisdictional revenue deficiency derived  
18       from Schedule 1, Line 8 was allocated to Black Hills Energy's jurisdictional  
19       customer classes based on the rate base ratio<sup>i</sup> approved in Black Hills Energy's  
20       last rate proceeding in Docket No. NG-0061. The rate base ratio is shown on  
21       Exhibit C, Schedule 6, Line 2.

22

1   **Q.    WHY IS THE REVENUE DEFICIENCY AMOUNT SHOWN ON THE**  
2       **PIPELINE REPLACEMENT COST APPLICATION EXHIBIT C,**  
3       **SCHEDULE 1 DIFFERENT THAN THE AMOUNT SHOWN ON EXHIBIT**  
4       **C, SCHEDULE 6, LINE 7?**

5    A.   The amount of \$1,866,094 shown as the Jurisdictional revenue deficiency on  
6       Application Exhibit C, Schedule 1, Column G, Line 8, is the total amount of  
7       revenue that Black Hills Energy seeks for recovery through this Pipeline  
8       Replacement Charge Application. However, due to the limits of recovery on  
9       residential customer of \$.50/month per under Neb. Rev. Stat. §§ 66-1865 and 66-  
10      1866, the actual amount of revenue that can be recovered through a customer  
11      charge is only \$1,515,269 as shown on Application Exhibit C, Schedule 6, Line 7,  
12      Column J.

13   **Q.    HOW WILL BLACK HILLS ENERGY TREAT THE REMAINING**  
14       **AMOUNT THAT IT IS DUE IF THIS APPLICATION IS APPROVED?**

15   A.   Since the limit on recovery is an annual amount, BHE will forego recovery until  
16       Black Hills Energy is able to file another Pipeline Replacement Charge  
17       application in future years.

18   **Q.    WHY DOES BLACK HILLS ENERGY REVIEW COST INFORMATION**  
19       **FOR CAPITAL PROJECTS THAT IT DOES NOT SEEK TO RECOVER**  
20       **IN THIS APPLICATION?**

21   A.   Black Hills Energy continues to invest millions of dollars each year in its natural  
22       gas distribution system. Those investments are made in areas that go beyond  
23       “integrity” and “safety” related capital projects. As noted in the Direct Testimony

1 of Don Nordell, another large category of capital investment is for growth of  
2 Black Hills Energy's distribution system. Black Hill Energy also invests in new  
3 meters and tools and equipment that are not part of this application. All of that  
4 data is contained in the property and accounting records of Black Hills Energy.  
5 Accordingly, to properly determine the jurisdictional amount of projects eligible  
6 for recovery through the Pipeline Replacement Charge, and to determine the  
7 scope of cost eligible for recovery through this application, Black Hills Energy  
8 conducted a comprehensive review of all of its Nebraska capital projects.

9 To that end, while Black Hills Energy has capital investment that is eligible for  
10 recovery under Neb. Rev. Stats. §§ 66-1802, 66-1865, 66-1866, and 66-1867, the  
11 statutory limits of recovery included in those statutes place a cap on the level of  
12 recovery of that investment. Thus, in order to generally track the costs that are  
13 recovered and to distinguish those costs from unrecovered or new costs in future  
14 Pipeline Replacement Cost or general rate proceedings, Black Hills Energy  
15 identified the total costs of its capital investments since the last rate proceeding.

16 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

17 A. Yes.

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<sup>i</sup> Rate base ratio refers to the rate base for each class divided by the total rate base. Both figures reflect the addition of the eligible investments in this application.